RIDLEY TERMINALS INC.
ANNUAL REPORT **2008**

Hard Work Pays Off

As North America's closest major bulk handling terminal to Asian markets, Ridley Terminals Inc. (RTI) is uniquely positioned to play an important role in supporting exports from Canada. Located on Ridley Island in Prince Rupert, British Columbia, RTI can offer customers reduced sailing time to Asia: by more than one day compared to Vancouver, and nearly three days vis-à-vis Long Beach, California.

Established in 1984 with over $400 million invested to date in the facility, RTI is a Canadian Crown corporation that can handle throughput of up to 12 million tonnes, which can be expanded to its design capacity of 24 million tonnes.

RTI primarily serves coal mines and refineries in northern British Columbia and Alberta. The mines produce high quality coals used in steelmaking and power generation and the refineries produce petroleum coke as a byproduct. Coal accounts for more than 80% of RTI revenues, and Asia is by far the leading destination for these products shipped through RTI.

RTI's vision is to be a leading trade "gateway" between North American and world markets for not only coal and pet coke, but a variety of bulk commodities. Its mission is to provide customers with premium, on-time services while maintaining a safe and rewarding working environment. Today, RTI is largely a 24/7 operation and employs 87 people. It is a major part of the economy and social fabric of Prince Rupert, which has a population of approximately 12,000.

As this report describes, in 2008 RTI and its customers witnessed extreme price volatility, and new management introduced dynamic changes to recalibrate the business to weather the current storm and position the Company for substantial growth potential.

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As this report describes, in 2008 RTI and its customers witnessed an historic price volatility, and new management introduced dynamic changes to recalibrate the business to weather the current storm and position the Company for substantial growth potential.

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Message from the Chairman

March 23, 2009

The Honourable John Baird, P.C., M.P. Minister of Transport

The Honourable Robert Merrifield, P.C., M.P. Minister of State for Transport

Dear Ministers:

Ridley Terminals Inc. (RTI) is the only federal Crown corporation of its kind. It is a bulk commodity terminal that employs 87 people in highly skilled, well paying jobs. It is a strategic asset that forms part of a critical transportation hub in Prince Rupert, British Columbia - Canada's northern Pacific Gateway.

Build It and They Shall Come

Thirty years ago, the Government of Canada invested almost $250 million (in 1982 dollars) to build Ridley Terminals Inc. The thinking was that this would facilitate the development of coal mines in eastern British Columbia. No commercial contracts were in place with coal producers to support this thesis or justify an investment of this magnitude. It was the "Field of Dreams" rationale to government planning: Build it, and they shall come.

Like most initiatives of this nature, the intentions behind it were well meaning, yet the results were less than stellar. Government ownership became the crutch upon which value was consistently destroyed. Because of that ownership, common sense financial and business practices did not apply.

Volumes for what was originally designed as a twenty-four million tonne facility never exceeded five million tonnes. The few customers who did come felt that RTI was in business to subsidize their operations. For a variety of reasons, RTI never disabused them of that notion.

Through Transport Canada, the taxpayer consistently funded operating losses and a high cost operation. This company has taken major write downs. Access to the facility has been deeply subsidized for decades. Staff and unionized employees enjoyed generous compensation and highly attractive working conditions. The municipality charged high property tax rates. Some customers were the beneficiaries of interest-free loans on multi-million dollar accounts receivable, going back several years. Others came to expect access to RTI at significantly below reasonable and fair market rates, without any contracts being in place for price or minimum tonnage.

A New Era

The Prime Minister's decision in 2006 to cancel the sale of RTI for a knock-down price signaled an important new era for Ridley Terminals. In 2007, the new Government of Canada began making a series of appointments to RTI's Board. This reflected its commitment to injecting commercial experience into the strategic posture and operations of RTI.

The new Board of Directors (Dave Parker, Byng Giraud, Douglas Knowles, Elmer Derrick, Scott Shepherd, and I) decided to be aggressive in following through on the Prime Minister's foresight. It would not be business as usual at RTI. Renewal was urgently needed. We assumed our fiduciary responsibility and did not choose the path of least resistance.

Recalibrating the Business

In April 2008, the newly constituted Board replaced the three lead managers. Since then, the Board and new management have instituted measures to improve board oversight, management information systems, customer service, employee relations, productivity, and overall rigor of analysis of all business lines.

In May, on instructions from the Board of Directors, RTI's new management began to develop a long-term strategy for realizing RTI's full potential. The key premise of our activities and, as a matter of new corporate policy, RTI decided that it would not enter into agreements that were not demonstrably in the economic interests of RTI, and therefore, the Crown. We immediately set out to recalibrate the business along sound business principles geared to building long term value and providing a viable set of policy choices for Ministers.

At the same time, management introduced a series of changes in operations. These included the immediate focus on increasing operational efficiency, cutting costs, and securing long-term relationships with customers. While most improvements will take years to implement, some have already been achieved. Since May 2008 RTI has:

- **Repaid a $960,000 loan to Transport Canada**, the first time ever that money has flowed to the Crown and not from the government to RTI.
- **Ratified a seven-year collective agreement with the Longshoreman's union** effective from June 2008. Typical long term contracts in this industry are three years.
- **Secured an agreement with the Prince Rupert Port Authority for an option to expand RTI's footprint**. That option has a very significant value to the crown.
- **Signed first ever Protocol Agreement with Coast Tsimshian First Nation** for training, employment, and postsecondary education programs, in addition to pursuit of broader business and economic development opportunities.
- **Saved close to $1 million in unscheduled overtime**, which has been reduced from a monthly average of approximately $188,000 (34.4% of base pay) in January through April to $72,000 (11.8% of base pay) in May through December.
- **Increased efficiency in unloading cars and loading vessels**. The average time to unload cars is down from an average of 7.2 hours in the first quarter of 2008 to 4 hours in the third quarter of 2008.
- **Increased despatch per tonne** shipped by over 50%.
- **Collected $2 million in long overdue accounts** receivable, including some dating back to 2006-2007.
- **Initiated a new set of contracts** with customers, to encourage long-term relationships.
- **Created a $25,000 Aboriginal Education Scholarship Program** to fund eligible recipient's tuition to pursue post-secondary studies.

The Need for Reform

As a matter of course, every terminal operator in the world has long term contracts with customers. At the core of those contracts are descriptions of the services to be provided, the term, the price, and guaranteed minimum volumes. Without those in place, terminals cannot – and should not - be in business. They are a basic tenet of managing this business.

A fundamental deficiency that cried out for reform was the need for realistic and reasonable contracts. Our new management established General Terms for the services that RTI provides, which is fundamental to planning our cash flow and funding our capital maintenance programs. Without these basic arrangements in place with RTI's users, management has no basis to ensure that RTI has the resources to reinvest in our aging assets and improve levels of service that customers and shippers rightly demand.

Without contracts, forecasts and corporate plans submitted to ministers are meaningless exercises in guesswork. Our new board resolved that process shouldn't trump content, and we were therefore late in submitting a corporate plan to Transport Canada. We have since caught up on that process. The board now stands behind the veracity of those plans.

Organization and Governance

Throughout the past year and consistent with the spirit of the Government's new Federal Accountability Act, RTI's Board initiated a series of measures to improve oversight, accountability, and financial discipline. Several board committees were created and have been active. KPMG was appointed as the new internal auditor.

Our board lost two members in 2008. Byng Giraud resigned to pursue volunteer activities that conflicted with his mandate as an Order in Council appointment.

Douglas Knowles, Q.C., a valued and trusted colleague, suddenly and tragically passed away last November. Doug was a former managing partner at Fraser Milner Casgrain in Vancouver and chairman of the firm's national insolvency practice. Doug agreed to serve as

our corporate secretary. He put a great deal of time and effort into organizing corporate records and documents and injecting needed professionalism into this critical responsibility. Doug's counsel was always cogent and wise. We miss him very much.

Our Board is now down to four members. We look forward to working with the government to fill these vacancies as soon as possible.

Robert Standerwick, Q.C., a partner at Lang Michener in Vancouver, has been appointed RTI's new corporate secretary. Bob is a highly respected member of the Canadian legal community and an outstanding addition to our team.

For the past 11 years, a president and chief operating officer has served as the full-time chief executive at RTI. In the past year, we continued this same practice for a very practical reason: As an Order in Council appointment, RTI's CEO could earn up to $125,000 per year. This is substantially less compensation than what CEO's in comparable operations in this industry earn, and is also less than 60% of what RTI's current staff and unionized workforce earn. Under these guidelines, all managers, supervisors, and many unionized employees will earn significantly more than the CEO of the company. It goes without saying that this situation – untenable as it would be - makes it exceedingly difficult to attract a candidate of the caliber and quality needed for this position.

Because of this and the intensity of the changes undertaken to recalibrate and stabilize the business, we did not immediately recommend the appointment of a Chief Executive Officer. However, in order to comply with the government's requirements, we have initiated a search process for a CEO and plan to submit a short list of names for your consideration shortly.

Last May, we entered into a management services agreement with Edgewood Holdings, LLC to fill senior management functions. George Dorsey, RTI's President and Chief Operating Officer, is globally respected in the commodity and terminal industry. He is leading a team of seven from Edgewood who have driven the turnaround outlined above and described in detail in this report. The total cost for Edgewood's services is slightly higher than the annual fully-loaded cost of the three managers that were replaced last year. A performance incentive bonus program for the Edgewood team is also in place. Bonus potential is based on a number of variables, which include: harmonious employee relations, profitability, efficiency, productivity, safety, community outreach, and throughput volumes. This incentive program is at the sole discretion of the Board.

The terms of the management services agreement (outlined in the audited financial statements) allow for maximum flexibility for RTI.

Securing Jobs and Strengthening Canada's Pacific Gateway Strategy

In 2003, Transport Canada officials managed and led a process that lasted more than two years resulting in its recommendation to sell RTI to a junior coal producer for a total cash consideration of less than $3 million.

After the 2006 general election, in one of his first acts as Prime Minister, Stephen Harper halted that proposed transaction. He made it clear at the time that this did not represent sound value or the right choice for Canadians. We believe that decision was absolutely the correct judgment for three fundamental reasons:

1. The price did not represent close to fair value for an asset in which the people of Canada had, by then, invested over $400 million;
2. Any eventual privatization of RTI should not be to a coal producer where understandable concerns are raised about security of access. Discussions should only take place with professional terminal operators. Their core mission and economic interest is to actively and aggressively promote the widest possible access to RTI's services for as many producers of a variety of bulk commodities as possible; and
3. RTI will require major investments to modernize, and eventually, expand. The future of such a critical part of Canada's Pacific Gateway should only be entrusted to an organization with the operational competence and financial depth to secure its long term competitive future.

In his November 2008 Economic Statement, the Minister of Finance announced that the government will undertake a multi-year review of corporate assets, including Crown corporations. He said that "review will take a careful approach to the sale of any asset, considering market conditions and ensuring fair value can be realized for the benefit of taxpayers."

With the turnaround of business operations well underway we believe it is time for the government to review its policy choices with respect to RTI.

For fifteen years, at least, RTI has served no discernible public policy mandate or purpose. In fact, government ownership has been an obstacle - not a help - to securing RTI's long term future. The government is now in a position to explore a variety of options to considerably enhance RTI's competitiveness and viability. They include private sector participation in various ways:

direct investments with some continued government ownership, or full or partial privatization. While we encourage a thorough investigation of strategic alternatives for RTI, we would, at the outset, suggest a number of key parameters for doing so:

1. RTI should never be sold in a fire sale, as was proposed by Transport Canada in 2003. If market conditions are not conducive to a reasonable return to taxpayers, it should not be considered.
2. If privatization – full or partial – is contemplated, a central condition of any such transaction should be that only proven and well-established terminal operators be considered. In 2005, coal producers expressed understandable concern that a competitor could own RTI. Inviting commodity producers to serve their competitors was a mistake then, and would be a mistake in the future.
3. A professional process should be managed by RTI's board, with the world-class advisors, not Transport Canada, who ran the unsuccessful process in 2003-2006.

Prince Rupert Port Authority

Several years ago, the Prince Rupert Port Authority (PRPA) proposed the amalgamation of RTI and PRPA. Transport Canada has been aware of this idea. While at first blush this appears to be a sensible notion, we are unconvinced that this move would be in the best interests of the Crown or RTI's employees.

First, the PRPA is not an operator, it is a landlord. Port Authorities should have less, not more, control over commercial operations for which they have little or no managerial capacity. The PRPA – and entities like it – should be less involved, not more, in activities that are clearly better suited to the private sector. Second, the idea of an amalgamation with the PRPA means that the Government of Canada is giving away a valuable Crown asset in which it has invested $400 million in taxpayer funds to an organization outside its control - free of charge.

We also understand that certain coal producers have an interest in acquiring RTI and have initiated discussions with the PRPA and Transport Canada to this effect. For the same reasons stated elsewhere – namely, that RTI should be a terminal which caters to a wide variety of bulk commodities and managed by a professional and world class terminal operator with the financial capacity to invest – we believe that this option would be seriously misguided.

Strategic Choices

Thanks to the Prime Minister's decision to cancel the sale of RTI in 2006 and reset the operations on a path firmly anchored on sound business principles, today, the Government of Canada is in the position to investigate a variety of positive strategic alternatives to create long term value for the Crown and those that depend on Ridley Terminals. Today, we know there to be a variety of plausible – and indeed highly attractive - alternatives to continued taxpayer ownership of RTI.

Given RTI's potential, the need to invest in modernization and its ongoing capital needs, we fail to see how the status quo can be a viable alternative if RTI is to be a self-sustaining enterprise.

However, if the government decides to maintain the status quo for public policy reasons, a significant and ongoing appropriation will be required to fund operations, pension liabilities, and capital maintenance and improvement programs.

First Nations

Ridley Terminals is situated on the traditional territory of the Coast Tsimshian First Nation. The Coast Tsimshian people make up more than half the population of Prince Rupert and surrounding communities. And that number is growing fast. Yet, for the past 15 years the aboriginal employee population at RTI has averaged below 9%. For the most part, well below.

We have forged new ties with the Coast Tsimshian First Nation. Last fall, RTI and the Lax Kw'alams and Metlakatla bands signed a first ever protocol agreement. The purpose of the agreement is to create a post secondary scholarship program, be proactive in helping members of the community develop the skills required for work at RTI, and exploit a variety of other business opportunities. The Coast Tsimshian are an enterprising, skilled, and educated people. We want to be their partners in growth and are actively seeking ways to involve them in our current and future business activities. Last fall, over 400 people of these communities held a traditional potlatch in Prince Rupert to commemorate this new relationship.

Last November, my colleague Elmer Derrick, a Hereditary Chief of the Gitxsan Nation, and I joined the Canada-China Business Council Trade Mission. This mission included the participation of over thirty aboriginal leaders from across Canada, including Chief Councilor of the Lax Kw'alams Band, John Helin, and his colleague Jerry Lawson. We met senior central

and provincial government officials and were hosted by the Chinese Minister of Foreign Relations at the Government Guesthouse in Beijing. Chinese officials expressed a strong interest in pursuing investment opportunities in Canada, particularly in the development of resource projects that would be of direct interest to RTI and the Port of Prince Rupert.

The aboriginal communities of the region are a unique part of what differentiates us from our global competitors. As such, we believe that they represent a truly distinct competitive advantage to us as a business, the Port of Prince Rupert, and for Canada. For our part, we have recognized this inherent asset and are working hard to develop it for the benefit of all.

The Dedicated Ridley Team

The challenges that we have confronted and necessitated a focused transformation agenda are the cumulative result of management, board and ownership decisions that spanned many years. Despite extraordinary challenges, the dramatic turnaround in RTI's operating performance in 2008 is due to the commitment and professionalism of our staff and unionized employees. Historical deficiencies aren't their fault.

Under the leadership of George Dorsey, our employees have produced remarkable operating improvements, and substantial new value has been created for the Crown as a direct result of their work.

My colleagues and I are grateful to the entire team at RTI for delivering under tough conditions. They put the company on a path that will preserve these good jobs and this company, which are so critical to Canada's Pacific Gateway.

A Promising Future

The global economic recession caused a dramatic reversal in market fundamentals in the fourth quarter of 2008. RTI must prepare itself to capitalize on our formidable advantages when conditions improve. Our focus, therefore, is to operate in the near term as efficiently as possible and minimize costs, while continuing to position RTI to leverage its full potential when market demand returns. And that potential is very significant.

Canada's Pacific Gateway needs a modern, productive, and cost effective bulk commodity terminal in Prince Rupert to service the needs of Western Canadian coal, wood pellet, chemical, sulphur, petroleum coke, and potash producers well into the future.

In spite of the groundswell of pessimism gripping much of the world's economies, Canada remains in the envious position of having an abundance of natural resources that the world will continue to need for generations to come. This downturn will not last and port capacity will need to grow.

On behalf of the board, I extend our warm thanks to The Auditor General of Canada, Sheila Fraser, and her colleagues. The result of their annual audit, which is contained in this report, is a consequence of countless hours of diligent work and uncompromising professionalism.

And finally, my fellow directors went over and above the call of duty. Their hard work, insight and wisdom have been invaluable. None of what we have accomplished could have been possible without them. They are certainly not doing this for the glory. They are all driven by a profound sense that public service is a unique privilege and solemn responsibility. I am very proud of all of them and their selfless contribution to Canada.

2008 was a year of transition and change for Ridley Terminals. Our work is far from complete, and we shall stay the course in 2009.

Sincerely,

Daniel D. Veniez
Chairman of the Board

RTI Board members

Message from Management

March 20, 2009

Our emphasis in 2008 at Ridley Terminals has been dynamic change.

The first step in the transformation has incorporated practices and perspectives which new leadership, based on broad experience, has introduced. The second phase of that ongoing process has been organic to the core strengths of the organization. Today's Ridley team has shifted reporting lines and the operating structure to emphasize the very best experience and professional skills that have been at the center of Ridley's workforce.

Ridley enjoys a strong working relationship with each employee, union and non-union. Management is quite proud to have the opportunity to work with this skilled team.

"It was the worst of times and it was the best of times" would adequately describe the volatile swings we have experienced in 2008. The story of Ridley's customer development in 2008 reflects the evolution of the commodity markets during this period. Later in this report we have provided several graphs to illustrate the harsh realities of this commodity cycle. As our customers have had to recalibrate their production planning, Ridley has been forced to weather the very slow conditions in the market of today.

Despite the uncertainties of the market and the adjustments to change we have had to make in 2008, this is a report of recovery and success. Some of these changes have been covered in the report from the Chairman. All of this growth and improvement is underway in a safe and well-reasoned business activity.

We enjoy a magnificent deep water port where we are well able to store and load large volumes of bulk materials. With an unused capacity offered at competitive rates served by an experienced and stable workforce, we are well positioned to grow the Ridley Terminals activity.

We encourage every potential customer to visit with us soon.

George Dorsey

Key Highlights of 2008

The table below reflects RTI's financial performance in 2008, which is further described below:

Figure 1 | RTI's Financial Performance in 2008

Performance (in thousands CAN $)	2008	2007	Variance ($)	Variance (%)
Total Revenue	24,744	23,146	1,598	7%
Terminal Revenue	24,623	23,071	1,552	7%
Investment Income	121	76	45	59%
Total Expenses	23,805	18,877	4,928	26%
Net Income	939	4,269	(3,330)	-78%

Operations

In May, new management led by George Dorsey began to develop and implement a long-term strategy for realizing RTI's full potential, introducing a series of changes in operations. Given current market conditions, the immediate focus has been on increasing operational efficiency, cutting costs, and securing long-term relationships with customers.

Revenues

Figure 2 | Revenues by source in 2008

(in thousands CAN $)	2008	2007	Variance ($)	Variance (%)
Throughput	22,419	21,405	1,014	5%
Despatch	1,508	886	622	70%
Lines & Berthage	721	752	(31)	-4%
Other	(25)	28	(53)	-189%
Total Terminal Revenue	24,623	23,071	1,552	7%
Investment Income	121	76	45	59%
Total Revenue	24,744	23,146	1,598	7%

Throughput

Revenues from coal and petroleum coke, charged per tonne unloaded (by rail) and loaded (onto ships), accounted for 91% of total terminal revenues which amounted to $22.42 million. In 2008, the average throughput revenues per tonne (unloaded and shipped) increased by 18% to $5.07 from $4.52. Negotiated throughput rates vary by customer, depending on a number of factors including the contract length and minimum guaranteed annual volumes.

Despatch

RTI earns despatch when the time taken to load a ship is less than the laytime allowed. If the time taken to load exceeds the laytime allowed, the company pays demurrage. The company has been earning despatch on most vessels loaded. In 2008 the company earned $1.5 million in net desptach revenue on 81 ships loaded versus $886,515 on 77 ships in 2007.

Lines and Berthage

Each ship loaded pays lines and berthage fees. Lines revenues are generated based on a flat fee per ship, while berthage revenues depend on the size of the vessel and the length of time it occupies the berth. On a combined basis, lines and berthage revenues slightly decreased to $720,960.

Investment Income

RTI earned investment income of $121,180 in 2008, which is roughly 60% higher than 2007.

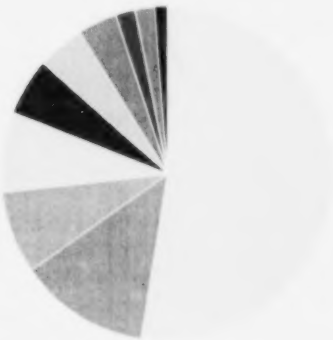
Expenses

Salary, wages and benefits combine to represent the Company's largest expense item, accounting for 52.6% of expenses in 2008, down from 57.6% in 2007. The major expense components are noted in the table and chart below.

Figure 3 | Breakdown of expenses in 2008

(in thousands CAN $)	2008	2007	Variance ($)	Variance (%)
Salary, wages and benefits	12,526	10,741	1,785	17%
Other services (Note 12)	3,028	813	2,215	273%
Lease rental (Note 14)	1,911	1,977	(66)	-3%
Equipment, operations and maintenance	1,838	2,355	(517)	-22%
Severence	1,301	–	1,301	
Site utilities	1,086	940	146	16%
Municipal taxes	914	961	(47)	-5%
insurance	458	424	34	8%
Office services and supplies	450	423	27	6%
Amortization and restoration costs	293	243	50	21%
Total Operating Expenses	23,805	18,877	4,928	26%

Figure 3 | Breakdown of operating expenses in 2008 continued



52.6% Salary, wages and benefits
12.7% Other services
8.0% Lease rental
7.7% Equipment, operations and maintenance
5.5% Severence
4.6% Site utilities
3.8% Municipal taxes
1.9% Insurance
1.9% Office services and supplies
1.2% Amortization

Base Salary and Wages

The increased number of employees and the ratification of the collective agreement in June 2008 had a significant impact on total salary, wages and benefits paid. RTI had 77 employees at the beginning of 2008, hired 12 more after the first quarter and the 2008 calendar year included 2 retirements. Overall, salary and wages increased by 17% to $12.53 million from $10.74 million.

The company's collective agreement provides for increases to wages twice each year, based on increases in the consumer price index ("CPI") for Vancouver.

Benefits

RTI has a comprehensive medical benefits program, which includes life insurance, long-term disability ("LTD") insurance, extended health benefits and dental benefits. The life and LTD insurance benefits are affected by increases to each employee's salary or wage rate. They are also impacted by the average age of the workforce, and to a lesser extent by the company's claim experience. RTI has seen the average age of its employees increase for a number of years, leading to higher costs for Life and LTD insurance.

Extended health and dental benefit rates, which are adjusted based on the company's claims experience, have been rising per employee in most years.

However, due to the Company's decision to change plan providers, benefit costs per employee were reduced, with no effect on the level of services provided. Total expenses for benefits fell by 4% from approximately $600,000 to $573,000 in 2007 and by 23% per person, from $9,371 in 2007 to about $7,253 in 2008.

Statutory Benefits

Statutory benefits consist of the Company's contribution to the Canada pension plan ("CPP") and employment insurance ("EI") premiums, together with premiums paid to the Workers Compensation Board of BC ("WCB"). CPP and EI premiums are based on rates set by the Government of Canada. For 2007, the maximum CPP contribution increased to 4.95%, while the maximum EI contribution decreased to 1.8%. In 2008, CPP remained at 4.95%, but EI was slightly reduced to 1.73%. WCB rates are set on an industry-wide basis and for the last few years these rates have been decreasing. The company's safety record impacts the overall WCB rate, thus RTI's excellent safety record has resulted in lower rates in 2008, which was 1.01% compared to 1.48% in 2007.

Productivity Bonus

As an incentive, RTI pays a productivity bonus to all employees with the total pool equal to one-half of the net despatch revenue earned by the Company. This bonus has proved to be successful in encouraging all employees to focus on loading ships promptly and efficiently. In 2008 total bonuses amounted to $743,267, up by 68% compared to 2007.

Other

There are a number of other costs included in the salary, wages and benefits category. These include costs for recruitment and relocation of new employees; training, the management performance incentive program, and tool and fitness allowances.

Equipment Operations and Maintenance

Equipment operations and maintenance costs decreased by close to $520,000 (or 22%) in 2008 to $1.84 million from $2.36 million in 2007 due to the contract painting for the terminal in 2007.

Rent

Rent is paid on a per tonne basis to the Prince Rupert Port Authority ("PRPA"). The original lease has been extended for thirty years ending March 31 in 2039. Subject to definitive documentation being completed and ratified, the newly agreed contract expands on the footprint of the lease to include an additional 15 hectares of land and a site for the addition of a second vessel berth. These optional areas for expansion allow

RTI to plan for an expansion of operations to increase volume capacities to 24 million tonnes per annum. Plans to implement this expansion, originally targeted for 2014, have been frozen pending clarity on the world commodity market demands.

Site Utilities

The company's largest utilities expense is electricity, followed by natural gas. Site utilities increased from $0.94 million in 2007 to $1.09 million in 2008 due to a higher percentage of aluminum rail cars handled, which require additional thawshed time during the winter months.

Other Services

Other services largely consist of fees paid for services such as management service performance, contract equipment inspection, engineering and other consulting and legal services. The costs for this category increased from $0.83 million to $3.02 million in 2008 mainly due to laying the groundwork to improve and expand overall operations and results.

Insurance

RTI maintains comprehensive property and risk insurance coverage. The company relies on the advice of its insurance broker, Aon Reed Stenhouse, for the design of this coverage and selection of insurance companies to provide the required policies. Insurance costs increased slightly to $0.46 million in 2008 from $0.42 million in 2007.

Cash Resources

In 2008 the Company's cash balance increased from $3.75 million to $5.09 million. Cash receipts from customers increased by 22% in 2008 and operating cash outflows increased by 26%.

Customers

Contracted tonnage agreements in 2008 have been hard to achieve in view of the chaotic conditions of commodity markets in the second half of 2008. Modest improvements in this area have included:

- Ridley's first contract with US Coal
- A new contract extending our long relationship with Husky
- First shipments have been received in our long-term agreement with PetroCanada
- A newly finalized service agreement with Houston Pellets, under which shipments of wood pellets have resumed. This agreement is targeted for expansion and is expected to lead to a volume of up to 1 million tonnes of wood pellets moving annually from Ridley.

People

In May 2008 RTI signed a new seven-year collective agreement with ILWU 523. This has resulted in a working environment where the non-managers collaborate with managers to continuously improve performance. The agreement provides for increases in wages of five percent in year one and year seven of the contract as well as CPI-based increases in years two to six.

As an added improvement in operating flexibility and quality service, the senior management now is converted to discretionary performance bonuses, with no overtime entitlement; this is an important step for our leaders, who have moved away from an overtime heavy compensation. We are proud of these leaders who have embraced basing their compensation on our shared success.

Resources

In 2008 RTI introduced substantial upgrades of the scales for inbound volumes, yard handling and vessel loading. The groundwork was laid for the major systems upgrades by enhancing IT infrastructure. Additional resource enhancement is captured in the new Ridley lease agreement which expands the company's existing footprint and includes an option for additional area allowing for RTI's expansion.

Environmental

In order to assure environmental compliance, RTI is certified to the ISO 14001 standard. RTI underwent its triennial external ISO audit in July of 2008, and passed the audit and received recertification to the 14001 standard for another three-year period.

Health and Safety

RTI's health and safety system is certified to the OHSAS 18001 standard. In July 2008, RTI was recertified for another three-year period. In 2008 RTI's safety performance was excellent with only two recordable incidents.

Focus on 2009

Operations

Our goals in 2009 include the following:

- building on the improvements created in 2008 in regards to rail and vessel handling.
- expanding our capacity to handle wood pellets.
- exploring opportunities to handle bulk liquids in our existing 40,000 metric tonne liquid storage and handling system. This effort will explore opportunities in sulphur, caustic soda, and other bulk liquid commodities.
- installation of a second rotary dumper when the facility's volume commitments demand the upgrade.
- planning for the expansion of the facility in 2012-2014.

Customers

Ridley's customers are our lifeblood. We recognize that customer satisfaction is a key to our success. In 2008 to the extent that those customer relationships have not been covered by binding agreements, we have been forced to strain historic relationships by asking for higher fees for services and requiring each new customer to evaluate the relationship opportunity with as much of a commitment to stable and guaranteed volume as their business can support.

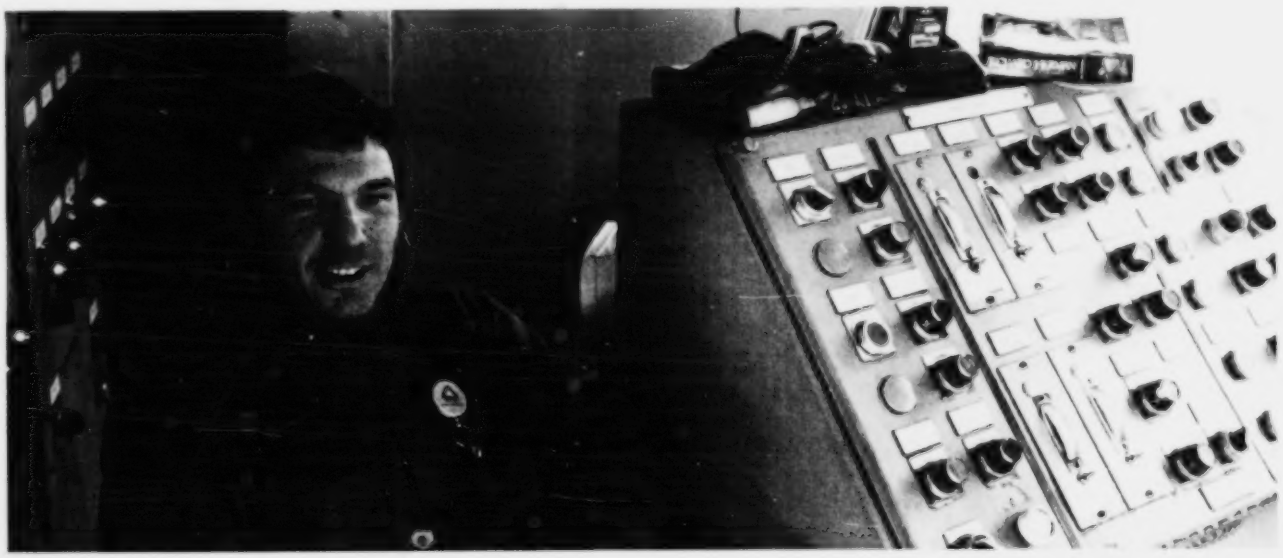
These discussions have, in some instances, been difficult and we regret any strain that has resulted.

Management has emphasized revenue enhancement in light of our ongoing commitment to provide value to the people of Canada as well as:

- expanded pension requirements resulting from the financial crisis
- infrastructure renewal requirements
- increased port royalty costs
- required replacement of some key elements of the facility

Although requests for improved commercial terms rarely meet with counterparty support, we believe our ongoing discussions will result in a positive result for all parties given that:

- US dollar and Canadian dollar exchange rate improvements softening the cost to our customers whose sales are in US dollars
- Ridley is a key element in the supply chain that our customers see as valuable to the growth of their business. We have a shared interest to help one another prosper in the next decade.
- Current coal market prices, although far below the highest levels in 2008, are still at relatively high levels by historic standards.



People

Ridley has expanded the workforce in 2008 by 12 skilled employees, seven of whom are still in a well-developed training process.

The company revised its leadership structure thereby providing expanded leadership opportunities for eight union employees.

Nine non-union managers have been promoted with advanced roles in 2008 and 2009.

Resources

We plan to continue to upgrade facilities and equipment to grow the business and improve asset utilization. In addition, we intend to identify and implement a new ERP solution and financial system.

Profitability

Ridley works to achieve improvements in the many areas where enhanced profitability can be found. These steps include but are not limited to:

- reduced overtime costs
- improved operating efficiencies
- improved service performance
- customer value creation
- safety in the workplace
- reduced dependence on outside services
- enhanced fees from customers
- expanded fee-earning services
- tighter credit management

"We understand how difficult the economic environment is in the world and we see how this impacts our business.

In the 25 years that I've worked at RTI, the last year has to be the most dynamic to date. That's mainly because the new management team has sought and acted upon our input for the first time.

We started 2008 in a stalemate after 11 days of collective bargaining and no trust or confidence in the way things were going. Employee morale was at an all time low.

Morale was increased by an incredible amount with a change of management, especially when they proved their willingness to work with the employees. A much improved employee/management relation was established by negotiating our new collective agreement in one day. This accomplishment allowed the employees to return their focus to the jobs they were hired to do. Our employees needed to have safety foremost in their minds and are glad to be rid of all of the distractions of the past.

Recently, a new management structure has been formed. Mr. Veniez and Mr. Dorsey have continued to put their trust in RTI's own people by promoting long term employees that all started on the ground floor. We are working well with all of the new management team.

We really appreciate that we now have a full time Safety Coordinator that innately understands our unique issues. We know he will bring all the good ideas we've all talked about for many years to a reality.

"Last year we lost some key employees to retirement and the pattern will persist due to our aging workforce. Therefore, in spite of the current economic times we believe it is in the best interests of RTI to continue with the training of all the relatively new employees we now have in place."

Ron Coolin

President
International Longshore &
Warehouse Union
Local 523

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March 23, 2009

Few Canadians understand how critically important it is to constructively engage indigenous peoples in the mainstream economy.

While the cost of doing nothing may be very high, there is also an enormous carrot for taking constructive action. If Canada wishes to maintain the prosperity and competitiveness that it currently enjoys, it is becoming ever more evident that there is a critical need to engage the burgeoning Aboriginal population in the economy, with a focus on educating, and training for skilled employment (particularly given the enormous existing shortage of skilled workers).

The emerging message is clear: there must be a new approach to Aboriginal education, and economic development. What is needed is innovative leadership with a new vision for the prosperity and the health of the nation that includes the substantial contributions of Aboriginal nations.

This is precisely what is taking place between the two communities of the Coastal Tsimshian Nation, Lax Kw'alaams and Metlakatla, and Ridley Terminals, Inc. (RTI). RTI has a port facility located in the traditional territories of the First Nations located in Prince Rupert. For the first time in the 10,000 year history of continuous Aboriginal occupation of the territory, a federal corporation properly recognized the strategic importance the Coastal Tsimshian communities.

RTI's new Board immediately recognized that there was a serious problem where there has never been meaningful communications between the communities on whose traditional territories RTI's facilities are located, and whose residents make up over 50% of the population of Prince Rupert. Mr. Veniez approached Chiefs with the notion of atoning for this longstanding corporate oversight by sponsoring a traditional feast (often referred to as a "potlatch") and beginning a formal process to bring us into the RTI family.

The purpose of the feast was to not only recognize the peoples on whose traditional territories they are doing business, but to honour the people and their hereditary and elected leaders. They have gone further in the recognized traditional protocol of the Coastal Tsimshian—through a historic feast.

In addition, RTI will be doing more than symbolically acknowledging the importance of the local indigenous people. They have announced an Aboriginal Scholarship Program, a meaningful approach through training for potential employment at their facility, and by supporting the All Native Basketball Tournament, an extremely important sporting event that has a substantial impact on the economy of Prince Rupert. In addition, Ridley Terminals have been working with us to develop new business opportunities within RTI's sphere of interest and well beyond. That is something entirely new and without precedent for us. It is an incredibly positive development for our people.

This is precisely the kind of innovative leadership and cooperative partnering spirit that is required with Aboriginal nations in Canada—particularly to realize a new mutually beneficial future beyond the clear dangers of the demographic tsunami. First Nations are unquestionably key players in Canada's economic future. In fact the First Nations along that Northwest corridor are fundamental to the Pacific Gateway Strategy, and all corporations and players in that area should be looking to the kinds of innovation and the spirit of cooperation that RTI is seeking to establish through more consequential relations with indigenous nations—progress that could only take place with vitally important leadership from all sides driving positive change.

In the end, a new approach underlined by mutual respect can result in unleashing enormous wealth and a new era of cooperation in Canada—resulting in a better nation and, with some dedicated work, a happier and healthier indigenous population. This important initiative is an example for others in the private sector across the country to find ways of partnering with aboriginal people. Multiplied a few times, and Canada's complexion can only improve for the better.

We salute the Board, new management team, and all the people of Ridley Terminals for their leadership at having done what others in the past have not – extended a hand of real friendship, cooperation, and trust to our people."

John Helin
Chief Councilor
Lax Kw'alaams

Harold Leighton
Chief Councilor
Medakatla

MESSAGE FROM LAX KW'ALAAMS & METLAKATKA NATIONS

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RTI's new Board immediately recognized that there was a serious problem where there has never been meaningful communications between the communities on whose traditional territories RTI's facilities are located, and whose residents make up over 60% of the population of Prince Rupert. Mr. Veniez approached Chiefs with the notion of atoning for this longstanding corporate oversight by sponsoring a traditional feast (often referred to as a "potlatch") and beginning a formal process to bring us into the RTI family.

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John Helin
Chief Councilor
Lax Kw'alaams

Harold Leighton
Chief Councilor
Metlakatla

Ridley will continue in 2009 to focus on all opportunities to maximize efficient terminal utilization, attract growth in volumes, otherwise generate growth in revenue, and further strengthen the Ridley team.

Community

RTI enjoys good relationships with community leaders, and intends to strengthen them with new resolve of the Board for more active involvement in the region.

As a case in point, the Board and management decided to forge new ties with the Coast Tsimshian First Nation. On October 27, 2008, the Lax Kw'alaams First Nation, the Metlakatla First Nation, Allied Tribes of Lax Kwialaams and Metlakatla, and RTI, entered into its first ever protocol agreement. Under this agreement, RTI committed to additional support for the coastal Tsimshian communities, including annual scholarships for post-secondary education for eligible aboriginal students. The Coast Tsimshian are an enterprising, skilled, and educated people, and RTI looks upon them as partners in growth, and is actively seeking to involve them in our current and future business activities.

Toward that end, RTI's long-term expansion plans would provide additional jobs to the community: approximately 300 construction jobs over 36 months, and more than 25-35 quality jobs on a long-term basis. Related barging, pilotage, commercial testing, and all similar services would increase dramatically.

Health and Safety

Maintaining high standards on health and safety throughout the facilities has always been a core value at Ridley. The promotion of Mr. Ken Lindenberger to the key leadership safety role is a very positive step in establishing continued high standards of safety performance. Mr. Lindenberger brings over 25 years of experience on this site into his new position.

Market

During the first half of 2008 global demand for coal increased significantly driving prices to their peak in August (see Figure 6). However, with the onset of the global financial crisis causing a steep slide in demand, prices fell sharply in the third and fourth quarters of 2008. The ramifications of the crisis were profound as global trade and economic activity decreased dramatically.

The Baltic Dry Index (BDI) decreased from 11,600 in the first half of the year to nearly 0 in December 2008. GDP growth in the U.S. fell from 0.9% during the first quarter of 2008 to -6.2% in the fourth quarter. China's GDP growth slowed from 10.6% in the first quarter of 2008 to 6.8% in the fourth quarter. While the global economic downturn induced a fundamental decrease in demand for commodities, a number of related factors exacerbated the sharp deterioration in commodity prices. In particular, a lack of faith among financial institutions led to unwillingness to lend to each other resulting in a virtual global credit freeze. Thus, letters of credit, a core component of international trade, became increasingly difficult to obtain. Despite radical measures taken by central banks to improve liquidity and unfreeze credit markets, this condition persisted through the end of 2008. Another aspect of the crisis is the deleveraging process that was spurred in large part by major hedge funds receiving margin calls as values of financial assets collapsed. This led to further price distortions in the commodity markets.

Coal

In the U.S., coal consumption in the electric power sector grew by 1.3% during the first half of 2008, but significantly declined in the second half, causing electric power sector coal consumption to fall by 0.5% for the year overall.

Deteriorating economic conditions led to a decreased demand for steel, and subsequently, for coal. Economic activity in Asia, the primary driver of coal consumption in the steel sector for the past decade, sharply contracted after August 2008. Steel producers cut back on contracts with suppliers or delayed shipments as they readjusted inventories.

Global steel demand has plummeted over 20% since August 2008 and is expected to decrease further. Global steel sector production fell by about 250 million tonnes (over 15%) in the period from July to October 2008. Declining prices are also a result of overstocking of industrial raw materials, particularly in China, during the hyper-inflated previous months. Because China has accounted for close to 60% of global steel demand growth for the past decade, the recovery of its economy will be vital for any revival of the steel industry and supplying sectors (metallurgical coal for the large part). In 2008, many steel mills closed, with large companies shutting down 20% of capacity, and smaller, privately owned mills shutting down completely. Analyst estimates suggest that a total of approximately 100 million tonnes of capacity will be eliminated from the Chinese steel market.

Petroleum Coke

Petroleum coke is used as a feedstock in coke ovens for the steel industry. As noted earlier, steel production in Asia decreased significantly in the second half of 2008, and thus led to less demand for this commodity. However, if production expands, and the market value for petroleum coke remains greater than $90 per tonne FOB vessel at RTI and the logistics to port are improved, RTI volumes will persist and continue to increase.

Wood Pellets

Wood pellets are a clean, CO2-neutral and convenient fuel, produced from sawdust and wood shavings, compressed under high pressure using no glue or other additives.

Wood Pellet production is driven by the availability of inexpensive fiber in BC (largely from insect damage) and by demand for "green" energy fuels in countries committed to the Kyoto Protocol. In 2008 close to 10 million tonnes of pellets were produced worldwide, and production is expected to double over the next four to five years according to the Wood Resources Quarterly. Canada produced about 1.3 million tonnes of wood pellets in 2008.

Expanded customer demand is enhanced by current low freight rates for delivery to Europe and Asia. On the North American market, about 2.3 million tonnes of pellets were consumed in 2008, of which 2 million tonnes we consumed in the U.S. While the largest wood pellet market is still in Europe, the U.S. is likely to catch up as a result of policies expected to come from the new Obama administration.

World Commodity Markets

Global commodity indices have fallen on average by 50% in the last 12 months (primarily Q3-Q4 in 2008), as you can see from the following graph. Oil and fertilizers have been one of the most volatile commodities in the market experiencing a decrease of 70% and 75% respectively since July. On the other hand, coal prices experienced a softer decline (~50% decrease for

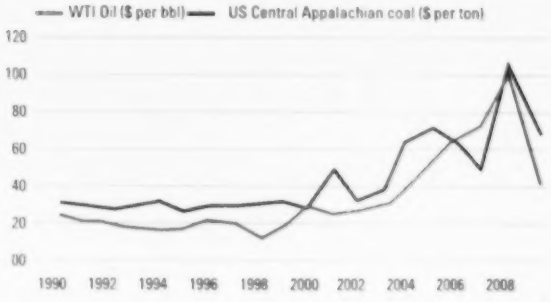
Central Appalachian coal, Figure 6). In fact, coal spot prices have risen slightly in February 2009, due to an increased demand for coking coal at steel mills in China.

The following graphs show global commodity indices as well as coal prices compared to oil prices over the last 12 months and since 1990.

Figure 4 | Global Commodity Indices (Last 12 Months)

Source: cridtrader.com

Figure 5 | Oil and Coal Price Dynamics (1990 - March 2009)



Source: eia.doe.gov

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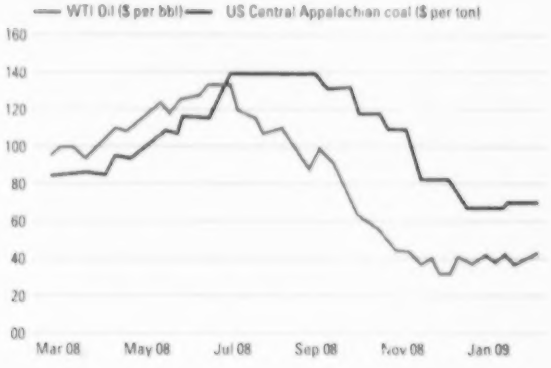


Source: eia.doe.gov

Glossary of Terms

BDI: Baltic Dry Index: is a number issued daily by the London-based Baltic Exchange. The index provides an assessment of the price of moving the major raw materials by sea.

Demurrage: The freighter of a ship is bound not to detain it, beyond the stipulated or usual time, to load or deliver the cargo, or to sail. The extra days beyond the lay days (being the days allowed to load and unload the cargo) are called the days of demurrage. The term is likewise applied to the payment for such delay.

Despatch: An incentive payment paid for loading a cargo faster than the stipulated or usual time. The term is likewise applied to the payment for such fast loading.

ERP: Enterprise Resource Planning: is a company-wide computer software system used to manage and coordinate all the resources, information, and functions of a business.

GDP: Gross Domestic Product: is one of the measures of national income and output for a given country's economy. It is the total value of all final goods and services produced in a particular economy; the dollar value of all goods and services produced within a country's borders in a given year.

ISO: The International Organization for Standardization: a global federation of over a hundred national standards bodies with central secretariat in Geneva, Switzerland. An ISO standard is an international standard published by the ISO. For example: ISO 9000 is a widely accepted standard which specifies requirements for a Quality Management System. The ISO 14000 environmental management standards exist to ensure products and services have the lowest possible environmental impact.

Metallurgical Coal: Bituminous coal from which the volatile constituents are driven off by baking in an oven at temperatures as high as 2,000 degrees Fahrenheit so that the fixed carbon and residual ash are fused together forming coke, which along with pulverized coal is consumed in making steel.

OHSAS 18001: An occupational health and safety management systems specification.

Petroleum coke Petroleum coke is a carbonaceous solid derived from oil refinery cracking processes. Crude oil must be refined to produce gasoline and other products. A residue is left over from this process that can be further refined by "coking" it at high temperatures and under great pressure. The resulting product is pet coke, a hard substance that is similar to thermal coal.

Rotary Car Dumper: A mechanism used for unloading certain rail cars such as hopper cars or gondolas. It holds the car to a section of track and rotates the track and car together to dump out the contents. An entire unit train of coal may be dumped without uncoupling any of the cars. The cars used for these trains are equipped with rotary tightlock couplers on one end. The end with the rotary coupler is marked with a colored stripe, typically white, red or yellow. The dumper rotates the cars on the axis of the couplers.

Thawshed: A building containing infrared natural gas heaters and reflectors, which heats cars in cold weather to minimize the amount of coal remaining in rail cars after unloading.

US Central Appalachian Coal: makes up a significant percentage of the world export market and are a relevant factor in world coal prices.*

Wood Pellets: A pelletized product comprised of compressed wood fibre, without additives or binders.

WTI: West Texas Intermediate:, also known as Texas Light Sweet, is a type of crude oil used as a benchmark in oil pricing and the underlying commodity of New York Mercantile Exchange's oil futures contracts.

* Source: Energy Information Administration

Auditor's Report

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Ridley Terminals Inc. as at December 31, 2008 and the statements of operations, comprehensive income and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Company that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporations Act, the Canada Marine Act and regulations, and the articles and by-laws of the Company.

Andrew Lenox, CGA, CMA
Assistant Auditor General
for the Auditor General for Canada

Vancouver, Canada
February 13, 2009

Management Responsibility

The accompanying financial statements of Ridley Terminals Inc., and all information in the annual report pertaining to the Company, are the responsibility of management, and have been approved by the Board of Directors.

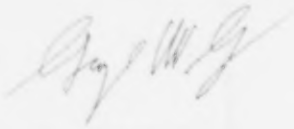
These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise, because they include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis. Financial information used in the annual report is consistent with that in the financial statements.

Management maintains a system of internal accounting and administrative controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through an Audit Committee consisting of three non-management members. The Audit Committee meets regularly with management and with the external and internal auditors to review the scope and result of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

These financial statements have been independently audited in accordance with Canadian generally accepted auditing standards by the Company's external auditor, the Auditor General of Canada, and her report is included with these financial statements.

Daniel. D. Veniez
Chairman of the Board



George W. Dorsey
President

February 13, 2009

Figure 7:

Balance Sheet

As of December 31, 2008 (in thousands of Canadian Dollars)

	2008	2007
ASSETS		
Current assets		
Cash	5,086	3,750
Accounts receivable (Note 4)	1,874	3,658
Inventory	3,023	3,133
Prepaid expenses	119	148
	10,102	10,689
Property, plant and equipment (Note 5)	13,085	12,618
Accrued pension benefit asset (Note 6)	4,253	2,944
Other long-term assets (Note 7)	238	618
	27,678	26,869
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	3,337	2,513
Accrued lease obligation	–	26
Government contribution repayable (Note 8)	–	960
	3,337	3,499
Long-term liabilities		
Asset retirement obligation (Note 9)	2,247	2,182
Deferred government contributions towards capital assets (Notes 8, 10)	3,012	3,045
	5,259	5,227
	8,596	8,726
SHAREHOLDER'S EQUITY		
Capital stock (Note 11)	136,042	136,042
Contributed surplus (Note 11)	64,000	64,000
Accumulated deficit	(180,960)	(181,899)
	19,082	18,143
	27,678	26,869

Commitments and Contingencies (Notes 12, 13)

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,

Chair

Director

Figure 8

Statement of Operations, Comprehensive Income and Accumulated Deficit

Year ended December 31, 2008 (in thousands of Canadian Dollars)

	2008	2007
Revenues		
Terminal revenue	24,623	23,070
Investment income	121	76
	24,744	23,146
Expenses		
Salaries, wages and benefits	12,526	10,741
Other services (Note 14)	3,028	813
Lease rental (Note 12)	1,911	1,977
Equipment operations and maintenance	1,838	2,355
Severance	1,301	–
Site utilities	1,086	940
Municipal taxes	914	961
Insurance	458	424
Office services and supplies	450	423
Amortization and restoration costs	293	243
	23,805	18,877
Net income and comprehensive income	939	4,269
Accumulated deficit, beginning of year	(181,898)	(186,168)
Accumulated deficit, end of year	(180,960)	(181,898)

The accompanying notes are an integral part of the financial statements.

Figure 9

Statement of Cash Flow

Year ended December 31, 2008 (in thousands of Canadian Dollars)

	2008	2007
OPERATING ACTIVITIES		
Cash receipts from customers	26,640	21,902
Interest received	128	66
Cash paid to employees	(11,824)	(9,778)
Pension funding (Note 6)	(2,313)	(1,764)
Cash paid to suppliers	(7,704)	(5,417)
Cash paid for lease rental (Note 12)	(1,814)	(1,843)
Government contribution received (Note 8)	–	670
Cash flows from operating activities	3,113	3,836
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(807)	(416)
Proceeds of disposition of property, plant and equipment	(10)	–
Cash flows used in investing activities	(817)	(416)
FINANCING ACTIVITIES		
Deferred government contribution repaid	(960)	–
Cash flows used in financing activities	(960)	–
Net increase in cash	1,336	3,420
Cash, beginning of the year	3,750	330
Cash, end of the period	5,086	3,750

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, incorporated under the Canada Business Corporations Act on December 18, 1981, operates a bulk commodity facility on Ridley Island in Prince Rupert, British Columbia. On June 11, 1998, the Canada Marine Act received Royal Assent. This Act came into force on November 1, 2000, at which time the Canada Ports Corporation Act was repealed and the Canada Ports Corporation was dissolved. Under the Canada Marine Act, Ridley Terminals Inc. became a parent Crown corporation named in Part I of Schedule III of the Financial Administration Act. The Company is a federal crown corporation exempt from income tax.

2 - ADOPTION OF ACCOUNTING STANDARDS

(a) Financial Instruments-Disclosure and presentation

Effective January 1, 2008, the Company adopted the new CICA Handbook sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation". The standards require the disclosure of information with regards to the significance of financial instruments for the Company's financial position and operations, the nature and extent of risks arising from financial instruments to which the Company is exposed to during the period and at the balance sheet date, and how the Company manages those risks. These standards replace CICA Handbook section 3861 "Financial Instruments – Disclosure and Presentation". The additional disclosures required as a result of adopting these standards are included in note 16.

(b) Capital Disclosures

Effective January 1, 2008, the Company adopted the new CICA Handbook section 1535, "Capital Disclosures". The standards requires the Company to disclose information about the Company's objectives, policies and processes for managing its capital, quantitative data about what the Company regards as capital and whether the Company has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The additional disclosures are presented in Note 18.

(c) Inventories

Effective January 1, 2008, the Company adopted the new requirements of CICA Handbook Section 3031 for inventories. The adoption of this standard did not have a material impact on the financial statements.

(d) Future Accounting Changes

The Canadian Accounting Standards Board has announced that all publicly-accountable Canadian reporting entities will adopt International Financial Reporting Standards as Canadian generally accepted accounting principles for years beginning on or after January 1, 2011. The Company is currently evaluating the impact of the adoption of these new standards.

3 - SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The future of the Company is dependent upon the production of three coal suppliers, as disclosed in note 15.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

Inventories

As of January 1, 2008, CICA Section 3031 "Inventories", required the Company to account for inventory at the lower of cost and net realizable value. In addition, disclosures are to include the accounting policies used, carrying amounts, amounts recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction of expenses. The adoption of this standard did not have a material impact on the financial statements.

Financial instruments

The Company has made the following classifications of its financial instruments:

Cash is designated as held for trading since it could be reliably measured at fair value, and is measured at fair value.

Accounts receivable, classified as loans and receivables, and accounts payable and accrued liabilities, classified as other financial liabilities, are initially measured at fair value, and subsequently measured at amortized cost using the effective interest method. Due to the short term nature of accounts receivable, accounts payable and accrued liabilities and bank indebtedness, their carrying value approximates fair value.

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. This mainly affects the asset retirement obligation, the useful life of property, plant and equipment and accrued employee pension benefits. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

Revenue recognition

Throughput revenue is determined by multiplying the contracted throughput rate by the number of tonnes handled, and constitutes the majority of the Company's terminal revenue. Fifty percent of the throughput revenue is recognized at the time the product is received at the terminal facility. The remaining fifty percent is recognized after the product is loaded on a vessel.

Inventory valuation

Inventory consists of supplies, consumables and repair parts. Inventory is valued at the lower of average cost and net realizable value.

Amortization

The terminal facility includes all costs incurred during construction (including the associated costs of engineering, administration, interest, insurance and site rental) and capital additions thereafter. The terminal facility also includes the fair value of the liability for an asset retirement obligation. This amount is added to the carrying amount of the asset in the period incurred and will be amortized over the asset's useful life. In 2002, the recorded value of the terminal facility was written down to the minimum residual recoverable value upon their disposition either intact as a going concern or on a salvage basis. With the exception of the sulphur terminal and wood pellet terminal assets, amortization is being recorded on the residual value, less salvage value, using the straight-line basis to 2024. The wood pellet terminal commenced operations in 2007 and is being amortized on a straight-line basis to 2024. No amortization has been recorded on the sulphur terminal to date, since the project is incomplete and not in use.

Other assets are amortized over their useful lives according to the straight-line method and at the following annual rates:

Machinery and equipment	10% and 20%
Office furniture and equipment	20% and 33%

Asset retirement obligation

The fair value of the liability for an asset retirement obligation is recognized in the period incurred, for example, upon acquisition of an asset. This value is subsequently adjusted for any changes resulting from age, changes in regulatory requirements and any changes to the timing or the amount of the original estimate of undiscounted cash flows. The associated retirement costs are capitalized as part of the carrying amount of the capital asset and amortized over the life of the asset. The liability is increased over time through periodic charges to income and it is reduced by actual costs of decommissioning and reclamation. Expenditures relating to ongoing environmental programs are charged against income as incurred.

Employee pension plans

The Company accrues its obligation under employee pension plans net of plan assets. The Company has adopted the following policies:

- The cost of the pension benefits earned by employees, including the indexing of pensions, is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- When the restructuring of a pension plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement;
- The excess of the net actuarial gain (loss) over 10% of the greater of the pension obligation and the fair value of plan assets is amortized over the average remaining service period of active employees; and
- The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees, as per CICA Handbook section 3461 - Employee Future Benefits.

Government Assistance

As the Government of Canada is the shareholder of the Company, government assistance received for the repayment of debt is recorded as contributed surplus. Government assistance for the Company's cash operating shortfalls is recorded as income. Government assistance for the Company's capital assets is deferred and amortized to income on the same basis as the related capital asset.

4 - ACCOUNTS RECEIVABLE

	2008	2007
	$	$
Accounts receivable		
Trade	1,739	3,491
Other	135	167
	1,874	3,658

Other accounts receivable consists of net recoverable GST, advances to employees and miscellaneous receivables.

5 - PROPERTY, PLANT AND EQUIPMENT

Figure 10 | Property, Plant and Equipment balance as of December 31, 2008

	Cost	Accumulated amortization	2008 Net	2007 Net
	$	$	$	$
Terminal facility	239,963	231,196	8,767	8,364
Sulphur terminal	3,688	–	3,688	3,883
Wood pellet terminal	231	23	208	194
Machinery and equipment	2,234	1,916	318	125
Office furniture and equipment	1,675	1,571	104	52
	247,791	234,706	13,085	12,618

6 - ACCRUED PENSION BENEFIT ASSET

The Company provides pension benefits to its employees through defined benefit pension plans. These plans provide a pension based on the highest 60 consecutive months' pensionable earnings of the employee, and pensions are indexed at 3% per annum.

Figure 11 | Pension benefit as of December 31, 2008

	2008	2007
	$	$
Company current service cost	1,088	671
Interest cost	1,421	1,223
Actual decrease on plan assets	3,965	735
Actuarial (gain) loss on accrued benefit obligation	(6,775)	568
Costs arising in the period	(301)	3,197
Differences between costs arising in the period and cost recognized in the period in respect of:		
Return on plan assets	(5,580)	(2,299)
Actuarial loss (gain)	7,108	(456)
Transitional asset amortization	(184)	(184)
Net periodic pension cost recognized	1,043	258

Information about the Company's defined benefit pension plans as at the measurement date of December 31, 2008 in aggregate is as follows:

Figure 12 | Defined Benefit Pensions Plan

	2008	2007
	$	$
Accrued benefit obligation at beginning of year	25,353	23,163
Company current service cost	1,088	671
Interest cost	1,421	1,223
Employee contributions	266	244
Benefits paid	(1,332)	(516)
Actuarial (gain) loss	(6,775)	568
Accrued benefit obligation at end of year	20,021	25,353
Fair value of plan assets at beginning of year	22,809	22,052
Actual return on plan assets	(3,965)	(735)
Company contributions	2,353	1,764
Employee contributions	266	244
Benefits paid	(1,332)	(516)
Fair value of plan assets at end of year	20,131	22,809

Figure 13 | Defined Benefit Pension Plans (continued)

	2008	2007
	$	$
Funded status – surplus (deficit) at end of year	110	(2,543)
Unamortized transitional asset	(534)	(718)
Unamortized net actuarial loss	4,677	6,205
Accrued pension benefit asset	4,253	2,944

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

Figure 14 | Accrued Benefit obligations assumptions

	%	%
Discount rate at beginning of year, used to determine the net periodic pension cost	5.53	5.25
Discount rate at end of year, used to determine year-end disclosures	7.50	5.53
Expected long-term rate of return on plan assets	7.00	7.00
Rate of compensation increase	3.00	3.00
Indexation of pension	3.00	3.00

The plan assets are invested in a balanced pooled fund managed by two independent investment managers.

The average remaining service period of the active employees covered by pension plans is 9 years (2007 - 10 years).

The most recent actuarial valuation for funding purposes was as at December 31, 2007. This valuation identified a going concern deficit of $981,000. The required payments to fund this deficit are $6,000 per year for the next 12 years, $10,000 per year for the next 13 years and $87,000 per year for the next 15 years. The valuation also identified a solvency deficiency of $2,131,000, and a solvency ratio of 85.2%. Because the solvency ratio is less than 100%, the Company is required to make special payments of $341,000 per year over five years starting in 2007, plus $479,000 per year over five years starting in 2008, to eliminate the shortfall. The next actuarial valuation for funding purposes will be as at December 31, 2008 but is not yet complete. The market value of the plan assets have declined from a market value of $22,914,721 in 2007 to $19,486,700 in 2008. It is expected that the funded position of the plan has deteriorated and the solvency deficit will increase and result in additional special payments to eliminate the shortfall.

At December 31, 2008, the future required payments to fund the going concern deficit and special payments to fund the solvency deficiency were, in aggregate:

Figure 15 Payments for going concern deficit and for solvency deficiency

	$
2009	923
2010	923
2011	923
2012	582
2013	103
Subsequent years	889
Total minimum funding payments	4,343

7 - OTHER LONG-TERM ASSETS

Figure 16 Other long-term assets as of December 31, 2008

	2008 $	2007 $
Deferred lease rental payment (Note 12)	238	378
Advance to an officer, secured by a mortgage, without interest or fixed repayment terms	–	240
	238	618

8 - GOVERNMENT ASSISTANCE

From 2004 to 2006, the Company entered into contribution agreements with the Government of Canada that provided government assistance for both the operating and capital cash flow requirements of the Company. Government assistance for the Company's operating requirements has been recorded in the Statement of Income. Government assistance for the Company's capital requirements is deferred and will be amortized to income on the same basis as the related capital assets (Note 10).

With respect to the Government contribution received in 2005, an amount of $960,428 was repaid to the Government of Canada in 2008.

9 - ASSET RETIREMENT OBLIGATION

Figure 17 Assets in retirement obligation as of December 31, 2008

	2008 $	2007 $
Balance, beginning of year	2,182	2,118
Accretion expense	65	64
Balance, end of year	2,247	2,182

Under the terms of the Company's land lease with Prince Rupert Port Authority (Note 12), the Company is required to return the land to the condition the land was in at the commencement of the lease. This obligation includes alleviating any environmental damage to the land and the cost of removing certain of the Company's terminal assets from the land.

The ultimate amount of future site restoration costs to be incurred is uncertain. The amount recorded as the asset retirement obligation is based on a number of assumptions. These assumptions include the undiscounted estimated cost of alleviating environmental damage of $1.8 million and the undiscounted estimated cost of removing terminal assets of $1.8 million, both of which are expected to be incurred at the end of the estimated useful life of the Company's terminal assets in 2024. These costs are discounted at the credit-adjusted risk-free rate of 3%.

During 2008, there were no new liabilities incurred, no liabilities settled and no revisions to estimated cash flows.

10 - DEFERRED GOVERNMENT CONTRIBUTIONS TOWARDS CAPITAL ASSETS

Figure 18 | Deferred government contribution as of December 31, 2008

	2008	2007
	$	$
Balance, beginning of year	3,045	3,084
Amortization of government contributions towards capital assets	(33)	(39)
Balance, end of year	3,012	3,045

11 - CAPITAL STOCK & CONTRIBUTED SURPLUS

Authorized

2,000,000 common shares without par value

1,960,000 class "A", 18% non-cumulative redeemable preference shares with a stated value of $25.55 per share

217,052 class "B", 20% non-cumulative redeemable preference shares with a stated value of $230.00 per share

Figure 19 | Capital stock and contributed surplus as of December 31, 2008

	2008	2007
	$	$
Issued and fully paid		
2,000 common shares	90,001	90,001
900,997 class "A" shares	23,021	23,021
100,089 class "B" shares	23,020	23,020
	136,042	136,042

In February 2004, the Company entered into a contribution agreement with the Government of Canada. This agreement provided the funds necessary to pay out the Company's debt obligation of $64 million. These funds have been recorded as contributed surplus in the shareholder's equity section of the balance sheet.

12 – COMMITMENTS

The Company leases land from the Prince Rupert Port Authority for its terminal facility. The original lease is for twenty-five years commencing in 1984 with a twenty-year renewal term. Lease payments are based on a rate per tonne of throughput, which is subject to escalation provisions based on increases in the Consumer Price Index for each year. The original lease expires on March 31, 2009.

During 2005, the Company entered into an agreement with the Prince Rupert Port Authority which is expected to result in an extension of the twenty-year renewal term to a thirty-year renewal term. As part of this agreement, the Company made an advance payment of $550,000 of lease rental. The Company is applying this payment against future increases in the lease payment due to the increases in the Consumer Price Index. This payment is included in other long-term assets as a deferred lease rental payment (Note 7). The Company has notified the Prince Rupert Port Authority that it will exercise its right to renew the lease. However, the renewal requires RTI to negotiate with the landlord a new rate structure for lease payments. The Company has not come to an agreement on these new rates. If a new rate is not mutually agreed upon, then the Company and the Prince Rupert Port Authority may have to go into arbitration to determine a new lease payment.

13 – CONTINGENCIES

The Company is subject to claims and lawsuits arising in the ordinary course of operations. While the outcome of these matters is subject to future resolution, management's evaluation and analysis of such matters indicates that, individually and in the aggregate, the probable ultimate resolution of such matters will not have a material financial impact on the Company's financial position, results of operations or liquidity.

14 - RELATED PARTY TRANSACTIONS

Government of Canada

Ridley Terminals Inc. is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Company enters into transactions with these entities in the normal course of business under the same terms and conditions that apply to unrelated parties. The contribution agreements with the Government of Canada described in Notes 8 & 10 and the lease agreements with the Prince Rupert Port Authority described in Note 12 are related party transactions.

Management Consultant Services Agreement

Ridley Terminals Inc. has engaged the services of Edgewood Holdings LLC to provide management consultant services. The Company is seeking ways to increase income and profitability and enhance the facility's image of reliability with customers and the community. The Agreement shall be for an initial five (5) years commencing on June 1, 2008 and shall be renewable thereafter at intervals of one year by written mutual agreement of both Parties not later than 120 days prior to the end of the initial term or any renewal term. Edgewood Holdings LLC future period agreement is for $850,000 USD per annum, with a foreign currency exchange floor of 30%, plus reimbursement for travel expenses reasonably and sufficiently related to the performance of its services. An annual performance bonus is available to Edgewood Holdings LLC, with a per annum cap established at $1,500,000 USD, actual payout to be determined by the Board of Ridley Terminals Inc. The agreement may be cancelled by the Company on six months notice or payment of $400,000 USD termination fee.

For the period ending December 31, 2008, Edgewood Holdings LLC earned a management consulting team service fee of $464,000 CAD, related group reimbursements of $199,000 CAD and a performance bonus of $613,000 CAD. The service fee, related reimbursements and bonus are included in other services on the statement of operations, comprehensive income and accumulated deficit.

Consultant Services

Ridley Terminals Inc. engaged the consulting services of Chiron Capital LLC, who have a separate position (service provider) with Edgewood Holdings LLC who hold a management consultant service agreement with Ridley Terminals Inc. The total amount of Ridley Terminals Inc. expenditures related to Chiron Capital LLC for the period of 2008 is $128,000.

Legal Fees

Ridley Terminals Inc. engaged the legal services of Fraser Milner Casgrain LLP during the fiscal year of 2008. A Director for the period of April 2008 through November 2008 of Ridley Terminals Inc. was also a partner of the firm Fraser Milner Casgrain LLP. Legal expenditures related to Fraser Milner Casgrain LLP for the period ended December 31, 2008 totalled $533,000.

15 - ECONOMIC DEPENDENCE

The Company is dependent upon the production of three coal suppliers who provided 70.3% of the Company's 2008 revenue (2007 - 80.0%). The Company and one of the suppliers have signed a throughput agreement that terminates on March 31, 2010, and provides the supplier with two options of five years each to extend the agreement. The Company and the other two suppliers do not have a long-term throughput agreement in place. Accounts receivable from these significant customers at December 31, 2008 was $1,095,000 (2007 - $3,171,000).

16 - FINANCIAL INSTRUMENTS

Financial risk management and exposure

The Company is exposed to various risks associated with its financial instruments, which include credit risk, liquidity risk and market risk.

Credit Risk

Credit Risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. Credit risk arises primarily from accounts receivable and cash.

The Company's exposure to credit risk is influenced by the profitability of coal mining companies, which is heavily impacted by the price of the coal. The accounts receivable are concentrated with three major customers, and these customers represented approximately 70% of RTI's revenues in 2008. RTI does not have any collateral or security over receivables. RTI monitors the financial health of its customers and regularly reviews its accounts receivable for impairment. As at December 31, 2008, there were no trade accounts receivable past due which were considered uncollectible and no reserve in respect of doubtful accounts was set up.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is:

	2008
Cash	$5,086
Accounts Receivable	1,874
Total	$6,960

Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet its obligations as they fall due. The Company continually monitors its financial position to ensure that it has sufficient liquidity to discharge its obligations when due.

The financial liabilities of the company include accounts payable and accrued liabilities, and have a contractual maturity of less than 1 year.

Market Risk

The Company is exposed indirectly to market risk resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of its business operations. The Company monitors its exposure to market fluctuations and is attempting to handle other commodities to manage these risks. The market risk resulting from foreign exchange and interest rates is not a significant risk to the Company.

17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate fair value based on the short-term maturity of these instruments.

18 - CAPITAL MANAGEMENT

The Company's capital is its equity, which comprises contributed surplus, capital stock and accumulated deficit.

The Company is subject to financial management and accountability provisions of the Financial Administration Act which imposes restrictions in relation to borrowings and acquisition of investments. During the period ended December 31, 2008, the Company has complied with these restrictions.

The Company manages its equity as a by-product of managing revenues, expenses, assets, and liabilities as required.

Directory

DIRECTORS

Elmer Derrick
Hereditary Chief of the
Gitxsan Nation
Terrace, BC

Dave Parker *
Registered Professional
Forester (Retired)
Terrace, BC

Scott Shepherd *
Businessman
Vancouver, BC

Daniel D Veniez
Businessman
Vancouver, BC

* Member of the Audit Committee

OFFICERS

Daniel D. Veniez
Chairman

George W. Dorsey
President

Robert Standerwick, Q.C.
Corporate Secretary
Partner, Lang Michener LLP
Vancouver, BC

MANAGEMENT

Dennis E. Blake
Senior Manager

Cordell Dixon
Controller

Thomas P. Harvey
Project Planning Manager

Leslee Hicks
Finance & Acctg Administrator

Frank Johansen
Electrical Coordinator

Mel Kuemper
Mechanical Coordinator

Kenneth J. Lindenberger
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Forward Looking Statements

Certain statements in this annual report are forward-looking statements and are not historical facts. Inherent in these forward-looking statements are risks and uncertainties beyond the control or the ability of the Company to predict. Future results may vary materially from any results stated or inferred by forward-looking statements contained herein.